Financial instruments	*31 December 2016*	*31 December 2015*
Loans and receivables		
Cash and cash equivalents, main pool	139 191	73 671
Cash and cash equivalents, euro pool	4 584	5 569
Cash and cash equivalents, other	121	239
Cash and cash equivalents	**143 896**	**79 479**
Voluntary contributions	264 459	272 701
Other receivables	1 856	740
Other assets (excluding advances)	93	89
Total loans and receivables	**266 408**	**273 530**
Total carrying amount of financial assets	**775 418**	**734 550**
Of which relates to financial assets held in main pool	504 304	453 349
Of which relates to financial assets held in euro pool	4 584	7 432
Financial liabilities at amortized cost		
Accounts payable and accrued payables (excluding deferred payables)	30 829	37 865
Other liabilities	13	1
Total carrying amount of financial liabilities	**30 843**	**37 865**
Summary of net income from financial assets		
Investment revenue	3 535	2 182
Total net income from financial assets	**3 536**	**2 182**

Financial risk management: overview

141. UNODC has exposure to the following financial risks: credit, liquidity and market.

142. This note presents information on the Office's exposure to these risks; the objectives, policies and processes for measuring and managing risk; and the management of capital.

Risk management framework

143. The risk management practices of the United Nations are in accordance with its Financial Regulations and Rules and the United Nations Investment Management Guidelines (the Guidelines). The United Nations defines the capital that it manages as the aggregate of its net assets, which comprises accumulated fund balances and reserves. Its objectives are to safeguard its ability to continue as a going concern, to fund its asset base and to accomplish its objectives. The United Nations manages its capital in the light of global economic conditions, the risk characteristics of the underlying assets and its current and future working capital requirements.

Credit risk

144. Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and deposits with financial institutions, as well as

credit exposures to outstanding receivables. The carrying value of financial assets less allowances for doubtful receivables is the maximum exposure to credit risk.

145. The investment management function is centralized at Headquarters, and other areas are not permitted in normal circumstances to engage in investing. An area may receive exceptional approval when conditions warrant investing locally under specified parameters that comply with the Guidelines.

146. A large portion of the Office's contributions receivable is due from sovereign governments and supranational agencies, including other United Nations entities that do not have significant credit risk. As at the reporting date, UNODC does not hold any collateral as security for receivables.

147. UNODC evaluates the allowance of doubtful receivables at each reporting date. An allowance is established when there is objective evidence that UNODC will not collect the full amount due. Balances credited to the allowance for doubtful receivables account are utilized when management approve write-offs under the Financial Regulations and Rules or are reversed when previously impaired receivables are received. The movement in the allowances account during the year is shown in note 7.

148. UNODC had cash and cash equivalents of $143.9 million as at 31 December 2016, which is the maximum credit exposure on these assets.

Liquidity risk

149. Liquidity risk is the risk that UNODC might not have adequate funds to meet its obligations as they fall due. The approach of the Office and the United Nations to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organization's reputation.

150. The Financial Regulations and Rules require that expenses be incurred after receipt of funds from donors, thereby considerably reducing the liquidity risk with regard to contributions. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk management criteria are adhered to with regard to the amounts receivable.

151. UNODC and Headquarters perform cash flow forecasting and monitor rolling forecasts of liquidity requirements to ensure they have sufficient cash to meet operational needs. Investments are made by Headquarters with due consideration to the cash requirements for operating purposes based on cash flow forecasting. Headquarters maintains a large portion of UNODC-apportioned investments in cash equivalents and short-term investments sufficient to cover the Office's commitments as and when they fall due.

152. The exposure to liquidity risk of financial liabilities is based on the notion that UNODC may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to receivables, cash and investments available to UNODC and internal policies and procedures put in place to ensure that there are appropriate resources to meet its financial obligations. As at the reporting date, UNODC has not pledged any collateral for any liabilities or contingent liabilities, and in the year no accounts payable or other liabilities were forgiven by third parties.

Market risk

153. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of investment securities, will affect United Nations

income or the value of its financial assets and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the Organization's fiscal position.

154. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows due to change in interest rates. In general, as interest rates rise, the price of a fixed-rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed-rate security's duration, with duration being a number expressed in years. The longer the duration, the greater the interest rate risk. The main exposure to interest rate risks relates to the cash pools and is considered in note 22.

155. Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. UNODC has transactions, assets and liabilities in currencies other than its functional currency and is exposed to currency risk arising from fluctuations in exchange rates.

156. The Office's financial assets and liabilities are primarily denominated in United States dollars. Non-United States dollar financial assets primarily relate to voluntary contributions, in addition to cash and cash equivalents and receivables held in order to support local operating activities where transactions are made in local currencies. The United Nations maintains a minimum level of assets in local currencies, and whenever possible maintains bank accounts in United States dollars. UNODC mitigates currency risk exposure by structuring contributions from donors in foreign currency to correspond to the foreign currency needs for its operational purposes. National law in Colombia restricts contributions collected in Colombia from being transferred outside the country.

157. The most significant exposure to currency risk relates to cash-pool cash, cash equivalents and voluntary contributions. As at the reporting date, the non-United States dollar denominated balances in these financial assets were primarily euros and Colombian pesos.

Currency exposure as at 31 December 2016

(Thousands of United States dollars)

	United States dollars	*Euros*	*Colombian pesos*	*Others*	*Total*
Short-term investments	246 445	–	–	–	246 445
Long-term investments	118 669	–	–	–	118 669
Cash and cash equivalents, cash pools	139 191	4 584	–	–	143 775
Cash and cash equivalents, other	31	–	22	68	121
Subtotal, cash pool	**504 336**	**4 584**	**22**	**68**	**509 010**
Voluntary contributions	96 115	107 486	29 802	31 056	264 459
Other receivables	1 687	28	132	9	1 856
Other assets (excluding advances)	–	–	93	–	93
Total	**602 138**	**112 098**	**30 049**	**31 133**	**775 418**

158. A strengthening/weakening of the euro exchange rate as at 31 December 2016 would have affected the measurement of investments denominated in a foreign currency and increased/decreased net assets and surplus or deficit by the amounts shown below. This analysis is based on foreign currency exchange rate variances

considered to be reasonably possible as at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

Currency exposure sensitivity analysis as at 31 December 2016

(Thousands of United States dollars)

	Net assets surplus or deficit	
	Strengthening	*Weakening*
Euro (10 per cent movement)	11 210	(11 210)
Colombian peso (10 per cent movement)	3 005	(3 005)
Other (10 per cent movement)	3 113	(3 113)

Market risk: other market

159. UNODC is not exposed to significant other price risk, as it has limited exposure to price-related risk linked to expected purchases of certain commodities used regularly in operations. A change in those prices may alter cash flows by an immaterial amount.

Accounting classifications and fair value

160. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits, receivables and payables, carrying value is a fair approximation of fair value. The carrying value of investments carried at fair value through surplus or deficit is fair value and these are predominately cash pool assets.

Note 22
Financial instruments: cash pools

161. In addition to directly held cash and cash equivalents, UNODC participates in the United Nations Treasury cash pools. Pooling the funds has a positive effect on overall investment performance and risk because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

162. The Office participates in two United Nations Treasury managed cash pools:

(a) The main pool, which comprises operational bank account balances in a number of currencies and investments in United States dollars;

(b) The euro pool, which comprises investments in euros. The pool participants are mostly offices of the Secretariat away from Headquarters that may have a surplus of euros from their operations.

163. As at 31 December 2016, the cash pools held total assets of $9,039.788 million (2015: $7,827.449 million), of which $508.888 million was due to the Office (2015: $460.795 million), and its share of revenue from cash pools was $3.535 million (2015: $2.182 million).

Summary of assets and liabilities of the cash pools as at 31 December 2016

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Fair value through the surplus or deficit			
Short-term investments	4 389 616	–	4 389 616
Long-term investments	2 125 718	–	2 125 718
Total fair value through the surplus or deficit investments	**6 515 334**	**–**	**6 515 334**
Loans and receivables			
Cash and cash equivalents	2 493 332	6 161	2 499 493
Accrued investment revenue	24 961	–	24 961
Total loans and receivables	**2 518 293**	**6 161**	**2 524 454**
Total carrying amount of financial assets	**9 033 627**	**6 161**	**9 039 788**
Cash pool liabilities			
Payable to UNODC	504 304	4 584	508 888
Payable to other cash pool participants	8 529 323	1 577	8 530 900
Total liabilities	**9 033 627**	**6 161**	**9 039 788**
Net assets	**–**	**–**	**–**

Summary of revenue and expenses of the cash pools for the year ended 31 December 2016

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Investment revenue	73 903	–	73 903
Unrealized gains/(losses)	(13 474)	–	(13 474)
Investment revenue from cash pools	**60 429**	**–**	**60 429**
Financial exchange gains/(losses)	(5 105)	728	(4 377)
Bank fees	(646)	–	(646)
Operating expenses from cash pools	**(5 751)**	**728**	**(5 023)**
Revenue and expenses from cash pools	**54 678**	**728**	**55 406**

Summary of assets and liabilities of the cash pools as at 31 December 2015

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Fair value through the surplus or deficit			
Short-term investments	3 888 712	10 941	3 899 653
Long-term investments	2 617 626	–	2 617 626
Total fair value through the surplus or deficit investments	**6 506 338**	**10 941**	**6 517 279**

	Main pool	*Euro pool*	*Total*
Loans and receivables			
Cash and cash equivalents	1 265 068	32 637	1 297 705
Accrued investment revenue	12 462	3	12 465
Total loans and receivables	**1 277 530**	**32 640**	**1 310 170**
Total carrying amount of financial assets	**7 783 868**	**43 581**	**7 827 449**
Cash pool liabilities			
Payable to UNODC	453 374	7 421	460 795
Payable to other cash pool participants	7 330 494	36 160	7 366 654
Total liabilities	**7 783 868**	**43 581**	**7 827 449**
Net assets	–	–	–

Summary of revenue and expenses of the cash pools for the year ended 31 December 2015

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Investment revenue	51 944	48	51 992
Unrealized gains/(losses)	(10 824)	(4)	(10 828)
Investment revenue from cash pools	**41 120**	**44**	**41 164**
Financial exchange gains/(losses)	(11 720)	(15 300)	(27 020)
Bank fees	(525)	–	(525)
Operating expenses from cash pools	**(12 245)**	**(15 300)**	**(27 545)**
Revenue and expenses from cash pools	**28 875**	**(15 256)**	**13 619**

Financial risk management

164. The United Nations Treasury is responsible for investment and risk management for the cash pools, including conducting investment activities in accordance with the Guidelines.

165. The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market rate of return component of the objectives.

166. An investment committee periodically evaluates investment performance and assesses compliance with the Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

167. The Guidelines require the ongoing monitoring of issuer and counterparty credit ratings. Permissible cash pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The cash

pools do not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

168. The Guidelines require that investments are not to be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

169. The credit ratings used for the cash pools are those determined by major credit-rating agencies; the ratings of Standard & Poor's (S&P), Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits.

170. The United Nations Treasury actively monitors credit ratings and, given that the Office has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

171. The cash pools are exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. They maintain sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within a day's notice to support operational requirements. The cash pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

172. The cash pools comprise the Office's main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the cash pools had invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (2015: five years). The average durations of the main pool and the euro pool were 0.71 years (2015: 0.86 years) and 0.0 years (2015: 0.21 years) respectively, which are considered to be an indicator of low risk.

Cash pools interest rate risk sensitivity analysis

173. The analysis shown in the table below illustrates how the fair value of the cash pools as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. Given that the investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease in the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Cash pools interest rate risk sensitivity analysis as at 31 December 2016

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	124.35	93.26	62.17	31.08	–	(31.08)	(62.14)	(93.21)	(124.27)
Euro pool total	–	–	–	–	–	–	–	–	–
Total	**124.35**	**93.26**	**62.17**	**31.08**	**–**	**(31.08)**	**(62.14)**	**(93.21)**	**(124.27)**

Cash pools interest rate risk sensitivity analysis as at 31 December 2015

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	128.99	96.74	64.48	32.24	–	(32.23)	(64.46)	(96.69)	(128.91)
Euro pool total	0.04	0.03	0.02	0.01	–	(0.01)	(0.02)	(0.03)	(0.04)
Total	**129.03**	**96.77**	**64.50**	**32.25**	**–**	**(32.24)**	**(64.48)**	**(96.72)**	**(128.95)**

Other market price risk

174. The cash pools are not exposed to significant other price risks because they do not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value hierarchy

175. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

Note 23
Employee salaries, allowances and benefits

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Salary and wages	79 012	75 184
Pension, insurance and other benefits	22 295	20 727
Total employee salaries, allowances and benefits	**101 307**	**95 911**

176. Employee salaries, allowances and benefits include salaries, post adjustments, entitlements, pensions, health plans and travel costs relating to home leave, education grant, assignment, separation and annual leave.

177. The increase of employee salaries and wages compared with the previous year is mainly attributable to the increase in the salary scale of General Service staff and the higher share of services rendered under the regular budget (see note 18).

Note 24
Non-employee compensation and allowances

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
United Nations volunteers	678	107
Consultants and contractors	39 672	51 189
Non-employee other	9	43
Total non-employee compensation and allowances	**40 359**	**51 339**

178. Non-employee costs refer to contracted services from individuals on the basis of time or delivery of defined outputs. Such contracts do not carry employment benefits made available to United Nations employees.

179. The decrease of non-employee compensation is mainly attributed to the lower implementation by the field offices in Afghanistan, Brazil and Colombia under the subprogramme 1, Countering illicit drug trafficking and transnational organized crime, and subprogramme 2, Prevention, treatment and reintegration, and alternative development.

Note 25
Grants and other transfers

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Grants to end beneficiaries, direct	4 474	11 095
Grants to end beneficiaries, indirect	–	51
Transfers to implementing partners	14 163	18 995
Total	**18 637**	**30 141**

180. Expenses related to grants to end beneficiaries consist mainly of amounts given to non-governmental organizations under authorized small grant programmes.

181. Expenses related to transfers to implementing partners expenses are for programmatic delivery executed on behalf of UNODC by other organizations. The amount of $14.163 million represents the work delivered for the year 2016 on the basis of certified financial reports provided by the implementing partners. In the absence of certified reports, UNODC estimated the work performed with reference to the duration of the agreement and in consultation with the responsible programme managers. Related outstanding advances, namely cash transfers given to implementing partners for which work was yet to be delivered as at 31 December 2016, are shown as advance transfers in statement I. Within the total of $14.163 million programmatic delivery by implementing partners, $8.536 million relates to awards to farming cooperatives under the alternative livelihoods programmes in Colombia; $2.080 million relates to the activities by implementing partners to promote law enforcement agencies' use of container control for any illicit trafficking of drugs, weapons and explosives; and $1.196 million relates to combating the illicit trafficking of narcotic drugs and the precursors in Central Asia.

Note 26
Supplies and consumables

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Fuel and lubricants	222	56
Rations	43	8
Spare parts	496	25
Consumables	2 695	2 368
Total supplies and consumables	**3 456**	**2 457**

Note 27
Other operating expenses

(Thousands of United States dollars)

	31 December 2016	*31 December 2015 (reclassified)*
Contracted services	28 674	31 735
Acquisitions of goods	7 901	5 184
Acquisitions of intangible assets	676	100
Rent of offices and premises	3 466	1 894
Rental equipment	193	108
Bad debt expense	1 857	11 049
Net foreign exchange losses	–	8 931
Other/miscellaneous operating expenses	6 673	8 590
Total	**49 440**	**67 591**

182. Acquisitions of goods comprise mainly low value items for use by the Office.

183. Exchange losses of $9.103 million from 2015 have been reclassified from other expenses to other operating expenses, and exchange gains of $0.172 million from 2015 have been reclassified from other revenue to other operating expenses.

184. The donated-rights-to-use amount of $1.087 million from 2015 has been reclassified from other operating expenses to other expenses.

185. Bad debt expense consists of $9.491 million in write-offs of uncollected pledges (2015: $17.095 million) and a reduction in the allowance for doubtful debts of $7.634 million (2015: $6.046 million). The write-offs consist of $7.069 million from Libya; $1.499 million from the United States of America; $0.792 million from Brazil; $0.064 million from the International Organization for Migration; $0.051 million from public donations; $0.013 million from other donors; and $0.003 million from the European Union.

186. Other/miscellaneous operating expenses include $5.140 million in project assets delivered to beneficiaries during 2016, including completed construction work of $4.627 million. Project assets are assets purchased for the end beneficiary rather than for use by UNODC.

187. The contracted services under other operating expenses consist of various services by individuals or institutions. Within the total of $28.674 million, $8.619 million represents various contracted services for the facilitation of meetings and workshops and for travel services; $4.736 million mainly relates to services in specialized areas such as research and analysis, surveys, studies and meeting/training services; and $4.114 million relates to communications and information technology services.

Note 28
Other expenses

(Thousands of United States dollars)

	31 December 2016	*31 December 2015 (reclassified)*
Contributions in kind	1 760	1 087
Ex gratia and compensation claims	145	–
Other/miscellaneous expenses	48	644
Total other expenses	**1 953**	**1 731**

188. Exchange losses of $8.931 million from 2015 have been reclassified to other operating expenses.

189. The 2015 contribution in kind of $1.087 million has been reclassified from other operating expenses.

Note 29
Related parties

Key management personnel

190. The key management personnel of UNODC include the Executive Director, the directors of the four UNODC divisions and the director of the United Nations Interregional Crime and Justice Research Institute, as they all have authority and responsibility for planning, directing and controlling the activities of the Office. Their compensation is shown in the table below.

Compensation of key management personnel

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Salary and post adjustment	1 010	1 024
Other monetary entitlements	256	58
Non-monetary benefits	293	295
Total remuneration for the period	**1 559**	**1 377**

191. Key management personnel earn post-employment benefits at the same level as other employees. With the exception of pension fund benefits, other post-retirement benefits cannot be reliably quantified.

192. Entitlements include mobility and hardship allowance, home leave and rental subsidy.

193. The key management personnel do not hold any other interests with UNODC.

Note 30
Leases and commitments

Operating leases

(Thousands of United States dollars)

	31 December 2016	*31 December 2015 (restated)*
Due in less than one year	392	416
Due in one to five years	344	345
Total minimum operating lease obligations	**736**	**761**

194. The operating leases consist of non-cancellable rental agreements in various UNODC field offices. The average remaining duration of the rental agreement is 16 months. The 2015 amounts have been restated due to an error in the amounts reported.

195. The operating lease includes $1.761 million of donated-rights-to-use arrangements for which corresponding revenue is included in statement II and presented within voluntary contributions revenue (see note 19).

Contractual commitments

196. The commitments for property, plant and equipment, intangible assets and goods and services contracted but not delivered as at the reporting date are set out in the table below.

Commitments for property, plant and equipment, intangible assets and goods and services

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Property, plant and equipment	1 293	540
Goods and services	8 443	8 414
Total open contractual commitments	**9 736**	**8 954**

Note 31
Contingent liabilities and contingent assets

197. A contingent liability arises where there is significant uncertainty about a number of aspects regarding the liability. As at 31 December 2016, a possible claim estimated at $0.093 million related to a labour dispute in a country field office remained unsettled. In the process, a judgment lien against a UNODC bank account was instated for the same. In the light of the privileges and immunities of the United Nations before national courts, management does not expect a resolution with an adverse impact to UNODC. Assessment of this case is performed on an ongoing basis and any changes will be reported accordingly.

Note 32
Events after the reporting date

198. The reporting date for these financial statements is 31 December 2016 and they were authorized for issuance by the Executive Director of UNODC on 31 March 2017, on which date they were also submitted to the United Nations Board of Auditors. All information relevant for the preparation of the financial

statements was considered in the present document. There have been no material events between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

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